

**City of West St. Paul  
Economic Development Authority Work Session Minutes  
February 10, 2020**

**1. Open Work Session**

President Napier called the meeting to order at 6:05 p.m.

**2. Roll Call**

Present: President Dave Napier  
Commissioners Wendy Berry, Lisa Eng-Sarne,  
Anthony Fernandez, John Justen, Bob Pace and Dick Vitelli

Absent: None

Also Present: City Manager Ryan Schroeder  
City Attorney Kori Land  
Fire Chief Mark Juelfs  
Lt. Matt Swenke  
EDA Executive Director Jim Hartshorn  
City Clerk/EDA Secretary Shirley Buecksler

Jason Peterson, Chief Executive Officer – NeighborWorks Home Partners

**3. Agenda Items**

**A. Expansion of Housing Rehab Programming**

City Manager Schroeder said he communicated with Jason Peterson, CEO of NeighborWorks Home Partners, after the Public Safety Committee meeting. Mr. Peterson did not attend that meeting but is here tonight. Schroeder said he has more experience than the rest of us and some opinions on what is either the right move, the wrong move, or what could help us to achieve our goals.

Within the 2020 EDA budget is an allocation toward rehab programs of \$150,000. Intended is that we would continue commercial rehab but add to it an expansion of current housing rehab programming. The Public Safety Committee discussed this initiative at their meetings of October 22 and December 3, 2019. This was followed by a January 27 Council OCWS presentation by Jason Peterson of NeighborWorks. At that meeting, consensus was to continue to pursue a rehab program expansion.

Following Council direction, specifics of the rehab program initiative were discussed at the February 4, 2020 Public Safety Committee meeting. This Committee is endorsing proceeding with a program and is recommending it be focused as follows:

- The program be created as a 1-3 year PILOT program and that eligibility during the PILOT be limited to single family homesteaded properties located within that area of the community bounded by: Annapolis, Robert, Butler, and Waterloo. It is suggested impact can be greatest with a limited geographical focus and this area has previously been identified as an area with the greatest opportunity for impact. It should be noted, however, that if this geographic target does not generate the desired interest level, the limitation could be revisited.
  - Schroeder recommended that we target north of Butler.
- The program would further be targeted to households with incomes between 80% and 120% AMI and that there be no limits on current or future market value of the homesteaded property.
  - In Council's packet, Schroeder said he estimated what that would be so you have some indication of income levels it was addressing.
- Improvements eligible for financing be limited to code deficiencies, exterior improvements to the structure (siding, windows, doors, roofs), and system replacement (HVAC, electrical, plumbing) with a specific exclusion of aesthetic improvements (kitchens, baths, flooring, et al). The Committee recommended the minimum loan amount be set at \$5,000 with the maximum of \$15,000 during the PILOT. The other NeighborWorks programs have lower minimum thresholds (of \$2,000) but the Committee thought the administrative costs of smaller loans should be avoided. The other communities have larger maximum loans (\$25,000 to \$40,000) but, with limited resources, the Committee preferred to offer loans to more households over larger loan amounts.
  - Schroeder said the committee discussed we stop there and not grant loans like kitchen and bath remodels.
- An interest rate in 2020 of 3.5% (a check of home equity loans reveals the current market minimum at about 3.79% APR with an 85% LTV and MHFA fix up loan fund is currently at 4.25%). The Committee did not discuss a specific loan term. In the Shoreview and Woodbury programs, the maximum loan is 15 years. In North St. Paul, the maximum loan is 20 years for loans greater than \$10,000 and 10 years for smaller loans. Anticipated is 15-year loan term maximums.
  - Schroeder said the committee wanted to push it higher than the 3% recommended by Mr. Peterson but who also stated that if you want to be competitive, you may ought to reduce it a little bit from there.

Sample \$15,000 Loans (City Admin fee of \$1,500 to NeighborWorks)

<u>Interest Rate</u>	<u>Loan Term</u>	<u>Monthly Payment</u>	<u>Total Int. Paid</u>
3.5%	15 year	\$107.23	\$4,301.83
3.5%	10 year	\$148.33	\$2,799.46
3.0%	15 year	\$103.59	\$3,645.70
3.0%	10 year	\$144.84	\$2,380.93

- Schroeder said he felt comfortable at the 3.5% rate, and would like to allow Mr. Peterson to speak and make any corrections.
- The only origination or application fee to the borrower would be \$150 refundable if they do not gain loan approval. Standard underwriting guidelines (security, loan to value, et al) would apply.

Under the contract proposal, NeighborWorks would provide all administration of the program. Beyond capitalizing the loan fund, the EDA would contribute 10 percent of each initial loan back to NeighborWorks to pay for program administrative costs. With Board authorization, it is anticipated that marketing of this program could be available by April 1. It is intended that investments of funds be a revolving pool. Hence, as repayments of loans occur those funds be used to replenish capital within the loan fund.

Proposed is a contract through 12/31/20 but which automatically extends unless either party provides notice. Anticipated is that the EDA would capitalize the loan fund similarly in future years as supplemented by repayments from borrowers.

Up to \$49,500 at three loans per year at recommended maximum or \$82,500 at five loans. With these metrics, replacement of investment into the loan pool could range from about \$3900/year at three loans in 2020 up to about \$8900/year at five loans.

Mr. Peterson said he applauds the Council moving forward and taking action on this. He echoed what Schroeder said and would preface that with right now you're looking at a relative small investment for the year, about \$50,000. Targeting can make a bigger impact. He warned that if you shrink the pool too far, it may be hard to find applicants. He thinks targeting helps when you have a small amount of that. Other than this, he said that everything Schroeder stated is correct.

Councilmember Vitelli said 3.5 or 3% seems high if we are trying to help people of limited means to fix up their property. He said he understands what we're trying to do is build interest into the pool. Schroeder agreed and said repayment would come back to us and the assumption is the pool will grow larger over time.

Mr. Peterson said that 3.5% is generally better than you can get on the private market and that he pushed for consideration of a lower interest rate because the difference isn't

huge. Once you start to get into the 4 and 4.25%, folks can go to a bank and get a lower rate, so people wouldn't come to you for it, he said.

Councilmember Justen said he is kind of feeling the narrowness of the targeting. Looking at the map and seeing 1a, b, c and d, he understands why that would be a targeted area but would hate to see not enough applicants to use the money. If we do the suggested targeting, he said he wouldn't want to commit to more than one year with that being a stipulated target area. The second and third year would be difficult. He said he is comfortable going back to north of Butler, in general. He would like to see all of this money go to something.

Mayor Napier asked what the downside is by going north of Butler. Schroeder said it would have less impact.

Mr. Peterson said the two things that limit it are geography and the loan size, so you're going to limit your applicants. Your limitation is you are not servicing renters. Those are the things to look at tweaking to broaden it. We can help you work on guidelines and suggested that if you want to try limited targeting, you need to be open to amending your guidelines if the money is not moving.

Councilmember Fernandez said studies have shown that doing this in a concentrated area can have a positive effect. \$50,000 is not a lot of people. Being optimistic, the money is going to go fast, he said. That would be the goal but if it's all over the place, there may not be a highlight to it.

Attorney Land asked what the logistics are and how it works. One absolute nightmare that was real, she said, was when the CDA was administering the loan, the worst violators got a loan and, when it defaulted, it went against the property. She said we can design the program with the criteria, but NeighborWorks administering it and us not knowing who is applying, all those boxes need to be checked for fees, fines, and open code violations, she said. Schroeder said it would be addressed in the underwriting.

Mr. Peterson said they can do that. The other thing to consider, he said, is you may want to incentivize some of the code violators if there is no other way for them to fix their home. Perhaps first time violators, Attorney Land said. For every applicant in Minneapolis, Mr. Peterson said they ask the City if this person is eligible.

Councilmember Berry said the code violators are the ones that need this loan, and perhaps we could shorten the list of violations through this loan.

Councilmember Justen said he would agree if there is a bunch of assessments against the property, then we are in a different situation. If someone needs their garage painted but they don't have the means, he said he would love to give them a loan because then everything ties up. However, that language would have to be massaged properly. He

agreed that terminal problem properties are different than someone else literally being incapable of handling a large project that they're getting cited for.

Councilmember Vitelli asked if this could be done internally without a third party. Schroeder said he doesn't believe so and that he would rather pay Mr. Peterson because we can manage the risk that way on everything. On underwriting, addressing any deferred payments, making sure we don't commit securities fraud, etc. Mr. Peterson added that, when you're lending advertising dollars, there are a lot of clients out there. One of my concerns is about the loan size is the lower loan size, is it's going to cost us more. It costs us more than \$500 to do a loan. You could explore it, but it's expensive, he said.

Councilmember Eng-Sarne asked what the ideal loan size is. Mr. Peterson replied that he would suggest up to \$25K. You would only be able to do two, but you're going to have limited projects.

Councilmember Justen asked if anyone else worries about fairness issues if we are limited to just those four areas, all within one ward. Councilmember Vitelli said no, because it is a target program.

Councilmember Pace said he also questions the loan size. Referring to Councilmember Vitelli being an electrician, if a house on the north end needs a complete redo, will it cost more than \$15K? Councilmember Vitelli said no. Councilmember Pace asked him what a \$5K loan would help with. Councilmember Vitelli said soffit, rain gutters.

Councilmember Pace said he loves the idea of the project but wants to be sure it works out for the homeowner.

Schroeder asked the Council if there is a decision on geographical area. Mayor Napier and Councilmembers Vitelli, Fernandez, Eng-Sarne and Pace said they like the area chosen.

Schroeder asked if it should go up from \$15K. Councilmember Fernandez said he likes \$15K, maximum. Schroeder said many Cities go below \$5K for their bottom. We went up from there because we didn't want to see Mr. Peterson lose too much money, he said.

Councilmember Berry asked if we are sending mailers, when we talk about targeting. Mr. Peterson responded that it would be up to the City, that his company would not be doing that. Either flyers or door hangers, but the other big thing is code enforcement. When you have code enforcement out, even if they are not enforcing, those are the best referrals we can get, he said. Councilmember Vitelli added that it should be included in the newsletter. Councilmember Berry said it could be added to the code enforcement letter.

Councilmember Justen said he likes the idea of not having bathrooms and other types of internal aesthetics included, but said that we need to be very careful how we word that. Obviously, there are exterior aesthetics of the house that we don't want to keep homeowners from doing but, at the same time, we are not doing things to increase the salability of the home by redoing the bathroom, for instance. Councilmember Justen added that electric is where it gets confusing because it's internal. Schroeder said systems, plumbing, electrical and HVAC can be included.

Schroeder asked Council if they are comfortable with the contract at the EDA meeting later this evening. Mayor Napier and Council answered yes.

Mayor Napier thanked Mr. Peterson for coming tonight.

#### **4. Adjourn**

Motion was made by Commissioner Eng-Sarne and seconded by Commissioner Vitelli to adjourn the meeting at 6:27 p.m.

All members present voted aye. Motion carried.

David J. Napier  
President  
City of West St. Paul